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Report Highlights:

Thailand's broiler meat production and exports are forecast to grow in 2003.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Bangkok [TH1], TH

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Section I: Situation and Outlook

Thailand's broiler meat production in 2003 is forecast to grow further by 4-5 percent over the 2002 level, mainly because of surplus of breeding stocks and a continued improvement in overall productivity in broiler farming. Despite increased competition among exporting countries, a current global supply surplus, and rigid intense trade barriers by importing countries, Thailand has a high potential in expanding its broiler production in the next 3-5 years. This is mainly because Thailand has successfully diversified their broiler meat products, from depending only on basic uncooked boneless parts into premium-quality cooked products. This should help Thailand to overcome its disadvantage of relatively higher feed costs against its competitors like the U.S. and Brazil.

In response to the recent emergence of residue problem in broiler meat exported to the EU market in 2002, both the Thai government and integrated poultry producers have reacted actively to resolve the problem. The government set up guidelines on resolving the residue problem, which include: a) controlling the importation of drugs/chemicals and their derivatives which contain prohibited substances; b) regulating all drug uses in animal feed manufacturing process; c) regulating all drug uses on farms; and d) monitoring the level of drug residues in all meat products. Meanwhile, nearly all of integrated poultry processors strictly control their operations in all steps, from feed milling, farming, to processing. According to trade sources, these stringent controls should benefit Thailand by improving its food safety status.

Although Thailand's broiler meat exports should grow steadily in the next 3-5 years, there is a concern of possible increased trade barriers, mainly in the EU, which may disfavor the Thai exports. For instance, the EU recently reclassified prepared chicken products in its harmonized custom codes. Thus far, Thailand exports uncooked chicken meat products under salted-item category (by mixing some salt in their chicken products) to enjoy the lower tariff of 15.4 percent, instead of paying about US\$ 1,000/ton tariff for unsalted chicken meat. However, under the new definition, salted chicken must contain not less than 2.0 percent of salt and must be thoroughly marinated. According to trade sources, these conditions would make product impractical for regular uses, and would definitely be difficult for Thai packers to export uncooked chicken meat under a salted-item category.

Total broiler meat exports are forecast to increase 5 percent in 2003 to 440,000 tons, of which about 300,000 tons would belong to uncooked products, while the balance to go into cooked products. As for the year of 2002, trade sources believe that a sharp reduction in exports in the second half of 2002 (Jul-Dec) may lead total broiler meat exports in 2002 to drop to 420,000 tons from 438,000 tons in 2001. Of total exports, exports of both uncooked products and cooked products are likely to reduce to 300,000 tons and 120,000 tons, respectively.

Not only export volume would drop in 2002, but also export prices have weakened from the 2001 level. The C&F prices for skinless boneless breast meat (SBB) shipped to the EU market in January-August were fairly stable at US\$ 1,800-1,900/ton, as opposed to about US\$ 2,700-2,800/ton in the same period of 2001. Meanwhile, prices for boneless leg meat (BL) mostly shipped to Japan have declined enormously in 2002, from the average of 2,400-2,500/ton in early 2002 to currently US\$ 1,300-1,400/ton.

Section II: Statistical Tables

Table 1: Thailand's PS&D Table for Poultry, Meat, Chicken - 16 wks.

PSD Table						
Country	Thailand					
Commodity	Poultry, Meat, Broiler				(1000 MT)(MIL HEAD)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	47	47	47	29	47	79
Production	1230	1230	1350	1320	0	1380
Whole, Imports	0	0	0	0	0	0
Parts, Imports	0	0	0	0	0	0
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	1277	1277	1397	1349	47	1459
Whole, Exports	0	0	0	0	0	0
Parts, Exports	420	438	470	420	0	440
Intra EC Exports	140	0	170	0	0	0
Other Exports	260	0	280	0	0	0
TOTAL Exports	420	438	470	420	0	440
Human Consumption	790	790	860	830	0	890
Other Use, Losses	20	20	20	20	0	20
Total Dom. Consumption	810	810	880	850	0	910
TOTAL Use	1230	1248	1350	1270	0	1350
Ending Stocks	47	29	47	79	0	109
TOTAL DISTRIBUTION	1277	1277	1397	1349	0	1459
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0

Table 2: Wholesale Prices for Live Broilers in Bangkok

Prices Table			
Country:	Thailand		
Commodity:	Plty, Meat, Chicken -16 wks		
Year:	2002		
Prices in (currency)	Baht	per (uom)	Kiliogram
Year	2001	2002	% Change
Jan	30.90	31.27	+1.2
Feb	27.52	31.00	+12.6
Mar	23.34	30.10	+29.0
Apr	27.85	22.25	-20.1
May	32.32	23.20	-28.2
Jun	33.24	25.95	-21.9
Jul	34.50	25.93	-24.8
Aug	33.27	22.10	-33.6
Sep	31.27		
Oct	28.45		
Nov	29.61		
Dec	31.50		
Exchange Rate	42.00	(Local currency/US \$)	
Date of Quote Sep-05-02			

Table 3: Retail Prices for Skinless Boneless Breast Meat in Bangkok

Prices Table			
Country:	Thailand		
Commodity:	Plty, Meat, Chicken -16 wks		
Year:	2002		
Prices in (currency)	Baht	per (uom)	Kiliogram
Year	2001	2002	% Change
Jan	68.40	72.64	+6.2
Feb	69.00	71.00	+2.9
Mar	71.54	71.00	-0.8
Apr	72.50	68.20	-5.9
May	73.79	67.50	-8.5
Jun	75.57	67.50	-10.7
Jul	77.00	67.50	-12.3
Aug	77.00	67.50	-12.3
Sep	77.00		
Oct	75.77		
Nov	74.00		
Dec	74.29		
Exchange Rate	42.00	(Local currency/US \$)	
Date of Quote Sep-5-02			

Table 4: Thailand's Broiler Meat Exports in 2002 (Jan-Jun) (Unit: Tons)

Thailand: Chicken Meat Exports in 2002 (Jan-Jun)			
Destination	Uncooked Meat	Cooked Meat	Total Exports
ASIA	130,149	37,345	167,494
Japan	100,257	32,157	132,414
Singapore	2,759	1,928	4,687
China	6,713	252	6,965
Hong Kong	1,286	1,543	2,829
South Korea	14,609	1,437	16,046
Brunei	98	19	117
Malaysia	4,415	0	4,415
Others	12	9	21
EUROPE	40,040	23,549	63,589
The European Union	39,734	23,548	63,282
Belgium	517	121	638
Germany	17,321	1,593	18,914
Netherlands	11,290	8,530	19,820
Spain	143	0	143
England	8,937	12,628	21,565
France	193	78	271
Others	1,333	598	1,931
Other Europe	306	1	307
Switzerland	265	1	266
Others	41	0	41
MIDDLE EAST	703	205	908
Kuwait	182	0	182
Saudi Arabia	46	119	165
Dubai	72	0	72
Others	403	86	489
AFRICA	444	5	449
South Africa	444	5	449
Egypt	0	0	0
Others	0	18	18
TOTAL	171,336	61,122	232,458

Table 5: Thailand's Broiler Meat Exports in 2001 (Jan-Dec) (Unit: Tons)

Thailand: Chicken Meat Exports in 2001 (Jan-Dec)			
Destination	Uncooked Meat	Cooked Meat	Total Exports
ASIA	220,952	66,733	287,685
Japan	162,131	52,489	214,620
Singapore	8,951	7,403	16,354
China	12,172	0	12,172
Hong Kong	4,288	3,495	7,783
South Korea	26,777	3,307	30,084
Malaysia	6,612	7	6,619
Others	21	32	53
EUROPE	99,119	49,854	148,973
The European Union	98,686	49,840	148,526
Belgium	499	400	899
Germany	49,110	3,908	53,018
Netherlands	25,632	24,450	50,082
England	20,648	20,713	41,361
France	829	224	1,053
Others	1,968	102	2,070
Other Europe	433	14	447
Switzerland	0	2	2
Others	433	12	445
MIDDLE EAST	547	236	783
Kuwait	416	0	416
Saudi Arabia	0	208	208
Dubai	0	0	0
Others	131	28	159
AFRICA	92	0	92
South Africa	92	0	92
Egypt	0	0	0
Others	69	195	264
TOTAL	320,779	117,018	437,797

Section III: Narrative on Supply and Demand, Policy & Marketing

Production

Total broiler meat production in 2003 is forecast to grow further by 4-5 percent over the 2002 level, mainly because of surplus of breeding stock and a continued improvement in overall productivity in broiler farming. Despite depressed export prices for broiler meat in most of 2002, most broiler integrated broiler producers will likely maintain or slightly increase broiler production in 2003 following their expanded operations, which took place in 2001 and 2002. In addition, a continued upgrading to "high-yield-type" parent stocks and the increased number of evaporative cooling system barns in broiler farming should favor the overall productivity in 2003. Despite increased competition among exporting countries, a current global supply surplus, and a likelihood of intense non-tariff trade barriers by importing countries, Thailand has a high potential in expanding its broiler production in the next 3-5 years. This is mainly because Thailand has successfully diversified their broiler meat products, from depending only on basic uncooked boneless parts into premium-quality cooked products. This should help Thailand to overcome its disadvantage of relatively higher feed costs against its competitors like the U.S. and Brazil. Meanwhile, China, which could be a threat to Thai exports due to its labor-cost advantage, may continue to be troubled with the on-and-off import ban from major importing countries such as Japan and the EU due to sanitary problems.

The emergence of residue problem in broiler meat exported to the EU market in 2002 should also lead to a new development in Thai broiler farming. The EU has recently developed lab test to detect the traceability of prohibited residues in broiler meat and frozen shrimp, and found nitrofurans residues as the first time in broiler meat shipments from Thailand in March 2002. Shortly after that, the EU announced it would conduct a 100 percent test on all broiler meat containers shipped from Thailand and warned that they would ban the imports from Thailand if problem of nitrofurans in broiler meat was not remedied. Although the Thai government and broiler processors have cooperated closely to resolve this critical problem (as mentioned below), most of Thai integrated broiler producers are increasingly concerned that importing countries (especially the EU) would seek more to utilize sanitary issues to impede Thai exports in the near future. As a result, these producers began to strictly control their operations in all steps, from feed milling, farming, to processing. Some producers isolated their production of poultry feed from that of other livestock feeds. As for broiler farming, they also segregate production-for-export farms from regular farms, and switched to source their live broiler production only from their own farms and reliable contracting farms. This trend in broiler farming will definitely speed up the elimination of independent broiler producers in the country.

In reaction to the EU's warning, the Thai government set up guidelines on resolving the residue problem, which include: a) controlling the importation of drugs/chemicals and their derivatives which contain prohibited substances; b) regulating all drug uses in animal feed manufacturing process; c) regulating all drug uses on farms; and d) monitoring the level of drug residues in all meat products. The actions conducted by the government in the past five months (April-August 2002) are as follows:

- The government approved the budget of 200 million baht (approx. US\$ 4.8 million) to

be used for the surveillance of drug residue in animal products.

-- The EU detection technology is so new that a specific laboratory has been established in Thailand. The lab has the capacity to detect any contamination by prohibited drugs/chemicals in animal feed, premix feed, and animal products.

-- The government has conducted the trial tests on drugs/chemicals imported into Thailand, and has not found any prohibited substances in these imports.

-- The Department of Livestock Development has regularly inspected many broiler farms that process for export, and no prohibited residue violation has been found.

As a result of depressed export prices (partly due to the emergence of residue detection), integrated broiler producers have scaled down their live broiler production. FAS/Bangkok, accordingly, is revising the estimate of total broiler production downward from the earlier estimate. However, the new estimate still represents a 7 percent growth over the 2001's level. The chick production in the first 8 months of 2002 (Jan-Aug) was around 18-20 million birds/week, compared to the average 18 million birds/week in 2001.

The average live broiler production cost in 2002 has apparently decreased from the 2001 level, following a lower replacement stock cost. Chick prices in the past 8 months (Jan-Aug, 2002) fluctuated from 3.00-12.00 baht/bird, as compared to stable 10-12 baht/bird in 2001. Meanwhile, feed cost is relatively unchanged in 2002 due to sufficient domestic corn production and continued low prices for such protein-source ingredients as soybean meal and fish meal. The total cost of broiler production in 2002 is pegged at 24-25 baht/kg live weight (approx. 24-25 cents/pound live weight), as opposed to 27.00-28.00 baht/kg (27-28 cents/pound) in 2001. The cost in 2002 (24.00 baht/kg live weight) is roughly derived from day-old chicks (3.00 baht), feed (17.00 baht), vaccination and drug (0.80 baht), labor (2.50 baht), and other costs (0.70 baht), respectively.

Consumption

Broiler meat consumption is forecast to increase further in 2003 with the expectation of strengthening Thai economy and increased population and popularity in chicken meat among Thai people. The Thai economy should continue to grow by 3-5 percent in 2003, as compared to the estimated 4-4.25 percent in 2002. Tourism industry would also expand, with more than 11 million visitors, which should bolster meat consumption. Quick service restaurants (such as KFC, McDonalds, Pizza Hut, Sizzler, Chester Grill, etc) are also increasing their outlets, mainly in large cities. In addition, chicken meat consumption is also driven by increased popularity of Thai northeastern style food, of which grilled chicken is a main menu, and its relatively low prices compared to other meats. Total consumption in 2002 is estimated to increase by 5 percent over the previous year.

In response to unfavorable export prices, live broiler prices have declined sharply in 2002. The Ministry of Commerce reported that wholesale prices for live broilers in the first 8

months of 2002 (Jan-Aug) dropped 13 percent to 26.48 baht/kg (approx. 29 US cents/pound). Meanwhile, the average prices for chicken boneless breast meat at Bangkok in 2002 (Jan-Aug) also decreased by 5 percent to 69.11 baht/kg (75 US cents/pound).

Trade

Despite trade barriers (in forms of both tariff and non-tariff issues) by importing countries, Thailand's broiler meat exports should have a high potential to grow steadily in the next 3-5 years, reflecting its competitiveness in producing cooked broiler meat products, its ability to tackle sanitary problems, and anticipated growing demand in the major importing countries. As mentioned in the previous annual reports, Thai processors have successfully reduced their cost of production (through improvement in farm management and breeding genetics) and developed their value added products (through continued investment). According to trade sources, consumers in the EU and Japan consider Thailand the supplier of the finest cooked products. In addition, a recent problem of nitrofurantoin residue has caused all broiler processors and the Thai government to introduce stringent program in monitoring food safety control. This should benefit Thailand by improving its food safety status. On the demand side, trade sources strongly believe that a downward trend in domestic production of broiler in both the EU countries and Japan should favor Thailand's market opportunity in these countries.

However, there is concern of possible increased trade barriers, mainly in the EU, which may disfavor the Thai exports. For instance, the EU recently reclassified prepared chicken products in its harmonized custom codes. Thus far, Thailand exports uncooked chicken meat products under salted-item category (by mixing some salt in their chicken products) to enjoy the lower tariff of 15.4 percent, instead of paying about US\$ 1,000/ton tariff for unsalted chicken meat. However, under the new definition, salted chicken must contain not less than 2.0 percent of salt and must be thoroughly marinated. According to trade sources, these conditions would make product impractical for regular uses, and would definitely be difficult for Thai packers to export uncooked chicken meat under a salted-item category. The Thai delegation is scheduled to discuss this issue (including the nitrofurantoin problem) with the EU authorities in September 2002.

Total broiler meat exports are forecast to increase 5 percent in 2003 to 440,000 tons, of which about 300,000 tons would belong to uncooked products, while the balance to go into cooked products. Unlike the booming exports in 2001, exports of broiler meat in 2002 were hindered by the incident of drug residue detection in broiler meat shipped to the EU in March, fierce competition from other supplying countries, and stronger Thai currency against US dollar. In the first few months of residue problem emergence, an additional requirement of the 100 percent test on all broiler meat containers exported to the EU and a lack of proper residue-detecting equipments and expertise in conducting the new-technique lab test have caused a delay in many shipments. Meanwhile, several buyers in the EU were hesitant to place purchase orders or switched to Brazilian broiler meat. A global supply surplus also generates a fierce competition in Thailand's major markets in 2002. According to trade sources, Brazil posed some threat to Thailand in both EU and Japanese markets, following their continued weak currency against US dollar and increased supply availabilities. Additionally, the average Thai currency against US dollar in the first 8 months (Jan-Aug) firmed by 4 percent over the same period of

2001. Trade sources believe that a sharp reduction in exports in the second half of 2002 (Jul-Dec) should lead total broiler meat exports in 2002 to drop to 420,000 tons, compared to 438,000 tons. Of total exports, exports of both uncooked products and cooked products are likely to reduce to 300,000 tons and 120,000 tons, respectively.

Not only export volume would drop in 2002, but also export prices have weakened from the 2001's level. The C&F prices for skinless boneless breast meat (SBB) shipped to the EU market in January-August were fairly stable at US\$ 1,800-1,900/ton, as opposed to about US\$ 2,700-2,800/ton in the same period of 2001. Meanwhile, prices for boneless leg meat (BL) mostly shipped to Japan have declined enormously in 2002, from the average of 2,400-2,500/ton in early 2002 to currently US\$ 1,300-1,400/ton. The average BL export prices in 2001 were about US\$ 1,800/ton.

Japan and the EU countries should remain the major market for Thai broiler meat for years to come. In the first six months of 2002 (Jan-Jun), Japan accounted for 57 percent of total broiler meat export (against 42 percent in 2001). Meanwhile, the EU accounted for 27 percent (down from 37 percent in 2001). The demand pattern in Japan and the EU has not changed from the previous reports. Japan usually buys uncooked meat in forms of boneless leg meat (BL), boneless breast meat (BB), and special cut meat in stick (Yakitori). It also buys made-to-order meat which is processed or prepared by heat (such as grilling, steaming, boiling, and etc.) Some of these products are breaded or seasoned (with salt, Japanese sauce, and etc.). The EU normally buys uncooked skinless boneless breast (SBB) meat, and semi-cooked and cooked meat in made-to-order style.

Policy

There has been no price intervention and export subsidy for broiler meat trade in recent history. Although the Thai government is seeking to do the market access for broiler meat exports in several countries, including the U.S., Canada, and Australia, but has not been successful thus far.

It is ironic that Thailand becomes one of the world largest suppliers of chicken meat and is seeking greater market access in potential buying countries, while simultaneously Thailand remains opposed the idea of opening up their market for imports of broiler meat. While groups of broiler producers and broiler meat processors are supporting the idea of domestic protection, they recently submitted a request to the Cabinet for retaliating the EU on the recent residue issue. According to their letter, they believe that the EU is using the sanitary issue as a trade barrier to Thai broiler meat exports. In retaliation, the Thai poultry producers are asking the government to reconsider a plan to buy commercial aircraft from an EU country.

Marketing

There has been no significant change in marketing of Thai broiler meat products from the previous annual/semi-annual reports. For years to come, Thai processors are likely to further

shift their production line to higher value-added products in order to overcome their disadvantage in production cost (mainly feed cost, genetics, and animal health products) against competitors. Thai investors own nearly all of existing broiler integrators, except Sun Valley Company which is linked to US-based Cargill Corporation. There should be no additional foreign investment in broiler business in the near future.